

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2006-290-E – ORDER NO. 2006-606  
OCTOBER 30, 2006

IN RE: Petition of Progress Energy Carolinas, Inc.    )  
for An Accounting Order to Defer Certain        )  
Environmental Compliance Costs.                )

ACCOUNTING ORDER

This matter comes before the Public Service Commission of South Carolina (“the Commission”) on Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc.’s (“PEC” or the “Company”) Petition for an Accounting Order regarding certain environmental compliance costs. The Company petitions this Commission to issue an Accounting Order for regulatory accounting purposes authorizing PEC to create a deferred account for estimated environmental expenses incurred by PEC and allowing the amortization of such costs over five years.

PEC has been associated with several environmental remediation sites, including eight former manufactured gas plant (“MGP”) sites and two transformer sites that have required or are anticipated to require investigation and/or remediation. Processes performed at these sites included the production of various waste products which often were disposed of onsite in accordance with standard operating practice at the time, but which have raised concerns under current environmental laws and standards. Federal and state environmental agencies today are focusing on many former sites for investigation of potential environmental hazards associated with waste products. Additional sites may

arise as a result of the increased focus by these agencies. PEC states that it is working closely with the appropriate agencies, including the South Carolina Department of Health and Environmental Control to address the conditions. Further, PEC states that it is working with other potentially responsible parties to share the cost of addressing conditions at the sites as appropriate.

PEC notes that, in accordance with generally accepted accounting principles (“GAAP”), PEC is required to accrue for losses associated with these environmental remediation obligations when such losses are probable and reasonably estimable, which is often well before the expense is actually incurred. The current amount of such remediation expenses for which PEC is responsible that are probable and reasonably estimable for PEC is \$21 million. The South Carolina jurisdictional amount is \$3 million. According to PEC, while the purpose of this GAAP treatment is to ensure timely recognition of loss contingencies pertaining to prior events or conditions, as mentioned, it does not match recognition of the expense for financial reporting purposes with actual expenditures.

Accordingly, PEC petitions the Commission to allow it to establish a deferred account to which it may charge \$3 million (on a South Carolina basis) of estimated environmental accruals including investigation, remediation, and pollution prevention activities associated with the eight identified MGP sites and two identified transformer sites, net of insurance proceeds. PEC requests that such deferrals be amortized to cost of service over a five-year period beginning January 1, 2007. Such amounts amortized to

cost of service would be included in surveillance reporting and could be included in future base rate filings.


The Company states that the proposed deferral and amortization treatment will result in expense for cost of service that is less subject to the volatility associated with the nature of the costs and related to ongoing changes in estimates. Further, PEC states that our granting of this request does not involve a change to any PEC rate or price and does not involve a Commission rule, regulation, or policy. This accounting order will be in effect for a five-year period beginning January 1, 2007.

The Office of Regulatory Staff (ORS) has reviewed this filing, and has no objection to the proposed Accounting Order.

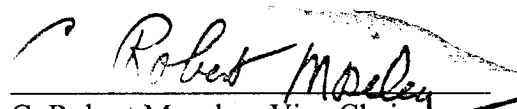
We have examined the request, and we hereby issue this Accounting Order as requested, and we approve the terms as outlined by the Company. The Company may establish a deferred account to which it may charge \$3 million (on a South Carolina basis) of estimated environmental accruals for the sites described and amortize such deferrals to cost of service over a five-year period beginning January 1, 2007. Such amounts amortized to cost of service would be included in surveillance reporting and could be included in future base rate filings. To the extent that such costs are so included, interested parties, including ORS, would have an opportunity to re-examine this issue at that time.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
G. O'Neal Hamilton, Chairman

ATTEST:

  
C. Robert Moseley, Vice Chairman

(SEAL)